



Insurance Institute of Michigan

December 1, 2015

The Honorable Joe Hune
Michigan Senate
Lansing, Michigan 48909

Dear Senator Hune:

On behalf of the members of the Insurance Institute of Michigan, I write to express our strong opposition to Senate Bill 430. The legislation would prohibit auto insurers from contracting with independent automotive repair facilities to use a specific mechanism to procure automotive repair parts as part of the insurer's preferred provider network.

By way of background, many auto insurance companies create preferred provider programs which are networks of collision and glass shops that have voluntarily entered into an arrangement with the insurance company to provide physical damage repair services within specified cost and quality parameters.

Individual insurer programs will vary in number of authorized shops and specific contract requirements, but most will require that the collision repair facility employ technicians with certain minimum certifications and training, that the facility have the correct machines to properly perform the work involved, and have agreed to reduced labor rates. In exchange, network shops receive more repair jobs by virtue of being a preferred provider.

Unique to State Farm's preferred provider program, which again is voluntarily entered into by the collision shops, is that State Farm requires the collision shops in their network to use Parts Trader (www.partstrader.com) to locate automotive repair parts. Parts Trader is electronic parts-ordering application that provides a national marketplace to efficiently and cost effectively connect automotive parts suppliers and repair shops. Parts Trader allows collision repair shops to receive and compare parts availability and pricing options from many suppliers within minutes, with full details and part images. Beyond that, State Farm does not require the collision shop buy the cheapest, closest, or quickest delivery part. That decision is left to the repair shop to make the best choice to fit the individual circumstance.

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To the extent Senate Bill 430 would statutorily prohibit auto insurers from contracting with shops within its preferred provider network to use Parts Trader or any other parts procurement mechanism, IIM opposes the bill as an inappropriate government restriction on businesses' ability to freely contract in the open market for mutual benefit. For State Farm or other insurers specifically, Senate Bill 430 interferes with their ability to design their preferred provider networks as they see fit.

Therefore, IIM strongly opposes Senate Bill 430 due to the following:

- Preferred Provider Networks are voluntary, contractual relationships between auto insurers and collision repair facilities.
- As with any other business to business contractual relationship, collision repair facilities weigh the costs and benefits of being in an insurer's preferred provider network. If they do not like the terms of the contract, they don't have to enter into the relationship.
- Preferred Provider Network contracts can be cancelled at-will by the collision repair facility if they no longer agree to the terms of the contract.
- Nothing prevents local parts suppliers from participating in Parts Trader. In fact, repair shops in the market select the suppliers, so participation of local suppliers is controlled by the repair shops.
- Nothing prevents collision repair shops from using local suppliers on Parts Trader.
- The use of Parts Trader does not cause repair delays or create customer service problems.
- No other state has adopted such a prohibition.

In light of the above concerns, we ask that you **OPPOSE** Senate Bill 430. Thank you in advance for your attention to this matter. Please let me know if you have any questions or comments.

Sincerely,



Peter A. Kuhnmuensch
Executive Director

cc: Members, Senate Insurance Committee